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Macroeconomic policy questions: financing of development, including net transfer of resources between developing and developed countries

High-level international intergovernmental consideration of financing for development: work of the United Nations system

Report of the Secretary General

1. The General Assembly, in its resolution 52/179 of 18 December 1997, requested the Secretary-General to prepare a report to be submitted to the Assembly at its fifty-third session on the work of the United Nations to address financing for development. In response to an inquiry from the Secretariat to assist in the preparation of that report, replies were received from the following bodies: Department of Economic and Social Affairs of the United Nations Secretariat, Food and Agriculture Organization of the United Nations (FAO), International Atomic Energy Agency (IAEA), International Civil Aviation Organization (ICAO), International Fund for Agricultural Development (IFAD), International Finance Corporation (IFC), International Labour Organization (ILO), International Monetary Fund (IMF), International Maritime Organization (IMO), International Telecommunication Union (ITU), Economic Commission for Latin America and the Caribbean (ECLAC), Economic and Social Commission for Asia and the Pacific (ESCAP), United Nations Conference on Trade and Development (UNCTAD), United Nations International Drug Control Programme, United Nations Development Programme (UNDP), United Nations Industrial Development Organization (UNIDO), United Nations Educational Scientific and Cultural Organization (UNESCO), United Nations Population Fund (UNFPA), Office of the United Nations High Commissioner for Refugees (UNHCR), United Nations Children's Fund (UNICEF), United Nations University (UNU) – Institute for Advanced Studies, Universal Postal Union (UPU), World Food Programme (WFP), World Bank and World Trade Organization.

2. The Secretariat inquiry set out eight broad headings to guide organizations in making their replies: mobilizing domestic resources for development, mobilizing international private financial flows for development, international financial cooperation for development, external debt (bilateral, multilateral and commercial), trade and financing for development, innovative sources of financing, governance of the international monetary, financial and trade systems, and interrelationship between elements and other special topics.

3. The present report draws from the replies many examples of new approaches being taken by the different organizations. Most of these organizations have a wide range of activities relating to finance for development and, within the space limitations of this report, it is not possible to provide a comprehensive description of the activities of each organization. In particular IMF, in its reply, explained that it has a vested and active interest in all of the issues in the questionnaire and that they occupy its staff on a daily basis.

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Most of the topics mentioned are also reviewed regularly by government representatives through discussions of the Executive Board. Information on these activities is contained in the *Annual Report* of IMF. Similarly, the *Annual Report* of the World Bank contains a description of its activities relevant to financing for development. In addition, the Internet Web sites of IMF and the World Bank (see www.imf.org and www.worldbank.org respectively) carry an extensive list and, in many cases, the full text of relevant documents and studies. The focus of this report will therefore be on organizations of the United Nations system other than international financial institutions.

Overall perspective: the Agenda for Development

4. The organizations of the United Nations system play many roles in the matter of financing for development. In the first place, they help finance development through programmes in developing countries. These various activities, undertaken to fulfil the mandates of the different organizations, are subject to the oversight of their governing bodies. Matters of coordination and of selecting the most worthwhile projects are always present for consideration. The Agenda for Development (see General Assembly resolution 51/240 of 20 June 1997, annex) described the efforts of the United Nations system to improve the functioning of funds and programmes at the country and headquarters levels. The Agenda stressed the need, however, for a substantial increase in resources for United Nations operational activities for development on a predictable, continuous and assured basis, commensurate with the increasing needs of developing countries, while also stating that new approaches to financing the international development cooperation activities undertaken by the United Nations, including innovative funding sources, should continue to be examined.

5. The Agenda for Development also provided an analysis in a broader sense of steps that should be taken to finance development. It described how development is one of the main priorities of the United Nations and a multidimensional undertaking for the purpose of achieving a higher quality of life for all people. The effective implementation of the Agenda thus required the urgent mobilization and more efficient use of resources for development – public and private, financial and human, national and international.

6. The Agenda set out a series of measures that countries and the international community should take to raise finance for development. An appropriate level of domestic savings should be achieved and countries should explore new ways of generating new public and private financial resources, *inter alia*, through the appropriate reduction of excessive military expenditures, which bears on global military expenditures and the arms trade and investment. The savings efforts of developing countries, in particular African countries and the least developed countries, needed to be supplemented by external resources so as to raise investment to the levels necessary for adequate and sustained economic growth. New and innovative ideas for generating resources for development should be explored. The international community, including the international financial institutions, was invited to continue to explore ways of implementing additional and innovative measures to alleviate substantially the debt burdens of developing countries. The Heavily Indebted Poor Countries (HIPC) Debt Initiative was welcomed, and the Agenda requested that eligibility criteria should be interpreted flexibly so as to ensure sufficient coverage.

7. The Agenda highlighted the importance of reversing the overall decline in flows of official development assistance (ODA) and of achieving internationally agreed ODA targets as soon as possible. Countries should also honour their commitments in Agenda 21[1] to provide resources to promote sustainable development.

8. The multilateral financial institutions should continue to play a major role in development and in promoting the stability of the international financial system. They were urged to increase cooperation with other development activities of the United Nations system. Regional development banks should continue to play an important role in the financing of development and the adequate and timely replenishment of their concessional mechanisms was essential in this context.

9. The Agenda emphasized how special attention should be given by all countries to measures aimed at promoting international investment flows and enhancing their contribution to development. In order to encourage domestic investment and to attract foreign direct investment (FDI), it was essential to have in place a stable, supportive, effective and transparent legal framework. Governments in the developed countries should facilitate long-term investment flows to developing countries.

10. The Agenda, which was adopted less than a month before the eruption, in July 1997, of the present financial crisis, emphasized how the globalization and growth of financial markets had given rise to the need for improved measures to address the negative effects of the volatility of

international capital flows. It set out an agenda for action, some parts of which have been implemented in the past year. It stated that the prevention of financial crises required enhanced early warning mechanisms, including improved and effective surveillance of national and international financial market developments. Because prevention could fail, enhancing the capacity of multilateral institutions to respond in a quick and coordinated fashion was required. Financial mechanisms needed to be developed for this purpose, as well as to meet the challenges of the twenty-first century. The international community was asked to explore ways to broaden appropriate enhanced cooperation and, where appropriate, coordination of macroeconomic policy among interested countries, and monetary and financial authorities and institutions, so as to enhance preventive consultation arrangements between such institutions. An example of action along the lines suggested by the Agenda was the adoption of the Emergency Financing Mechanism of IMF in September 1995 to strengthen its ability to respond swiftly in support of a member country facing an external financial crisis. This mechanism was first used in July 1997 in approving a support package for the Philippines.

Research activities

11. The Agenda did not foresee the full extent of the shortcomings in the world's financial architecture and the financial systems of individual countries which were revealed in the course of 1997 and 1998. Many United Nations bodies are undertaking research into aspects of the global and national financial systems, often in partnership with other international organizations, universities, research centres, private companies, non-governmental organizations and other actors in civil society. This research is frequently followed by outreach programmes to bring it to the attention of decision makers.

12. For instance, UNU recently completed research on, *inter alia*, "The impact of liberalization on key markets in sub-Saharan Africa", "Growth, the external sector and the role of non-traditional exports in sub-Saharan Africa", "Short-term capital movements and balance of payments crises", "New models of provision and financing of public goods" and "Asia and Africa and the global economy". It has also started research on information technology and growth, and on environmental, export and human development problems in natural resource-based growth models.

13. The regional commissions have carried out relevant research that was published in their economic and social surveys and in other publications. For instance, ESCAP referred in its *1998 Economic and Social Survey of Asia*,[2] to Development paper, No. 19, on *Foreign Direct Investment in Selected Asian Countries: Policies, Related Institution-Building and Regional Cooperation*[3] and to a presentation by the Director of Development Research and Policy Analysis entitled "The dynamics of Asian economic crisis and selected policy implications".[4] ECLAC referred to "Pension funds, the financing of transition costs and financial markets development" (LC/R.1822), "Flujos de capital externo en América Latina y el Caribe en los años noventa: experiencias y políticas" and "La relación entre el ahorro externo y el ahorro nacional en contextos de liberalización financiera".

14. On the subject of mobilizing international private financial flows for development, UNCTAD's research included the report and issues paper of the UNCTAD Expert Meeting on the "Growth of domestic capital markets, particularly in developing countries, and its relationship with foreign portfolio investment" (TD/B/COM.2/EM.4/2 and TD/B/COM.2/EM.4/3), the secretariat report "Foreign portfolio investment: implications for the growth of emerging markets" (UNCTAD/GDS/GFSB/4) and its annual *World Investment Report*.

15. UNCTAD's research of relevance to international cooperation for development, external debt and the governance of the international monetary, financial and trade systems is included in its annual *Least Developed Countries Report*, in the *Trade and Development Report* and in the series of publications under the general heading of *International Monetary and Financial Issues for the 1990s*. In connection with trade and financing for development, UNCTAD is to publish a survey on export credit agencies. Concerning innovative sources of financing, there is a series of research publications and newsletters by the UNCTAD secretariat on greenhouse gas emissions trading dating back to 1992.

16. UNIDO indicated that its *Industrial Development Global Report, 1997*[5] was devoted to the financing of industrial development.

17. Within UNDP, the Office of Development Studies (ODS) of the Bureau of Development Policy reported that it seeks to enhance private and public financing of development as one of its major goals. It has sponsored studies and publications that aim to influence the policy dialogue, mobilize follow-up research at the global, regional and country levels, and build capacity in the area of development finance. Since 1996, it has published six discussion papers and three working papers on financing development. ODS is currently preparing two books relating

to the theme of financing development. The first, *Global Housekeeping: A New Approach for International Development Cooperation*, will, *inter alia*, examine the financial implications of rethinking development cooperation to secure the provision of global public goods. The second, *Private Finance for Human Development*, aims to close the gap between the abundance of investable private finance and the unfulfilled financial needs of poor people.

18. The Regional Bureau for Latin American and the Caribbean of UNDP has supported research and analysis of the potential and challenges of using pension funds to finance development in Latin America. In May 1997, it organized a seminar to discuss the pitfalls, promises and power of pension funds in Mexico.

19. The Department of Economic and Social Affairs of the United Nations Secretariat undertakes search and analysis on several dimensions of financing for development, ranging from the handling of financial data within the System of National Accounts (SNA) and institutional innovations in financing sustainable development to an examination of the linkages of various financing questions to social development. Its recent reports cover a range of considerations from micro- to macro-finance. In addition to reports for intergovernmental bodies, the Department of Economic and Social Affairs of the United Nations Secretariat publishes major studies such as the annual *World Economic and Social Survey*. It organizes as well expert group meetings, such as the semi-annual forecasting meeting of Project LINK, where financial constraints on economic growth are a frequent subject of consideration. It also organizes ad hoc expert groups, such as the one arranged in July 1998 in cooperation with the regional commissions to assess the current crisis of international financial volatility (the results of that meeting are to be published by UNU Press).

Outreach and involvement of the private sector in research and analysis

20. In terms of outreach, UNDP described how it had supported the Chairman of the Second Committee of the General Assembly at its fifty-second session in organizing briefings for delegates to the United Nations on financing for development in preparation for the high-level meeting to be held in 2001. (This cooperative endeavour also involved the Department of Economic and Social Affairs of the United Nations Secretariat, UNCTAD, IMF and the World Bank). In addition, ODS is a co-sponsor of the Money Matters Initiative, a public-private policy approach involving leading private investors. It has also organized regional and country-level workshops and seminars on private finance and issues of sustainable human development with members of the Money Matters Institute.

Training and capacity-building

21. United Nations bodies undertake a range of training and capacity-building activities relevant to finance for development. For instance, through projects like the Inter-Regional Centre for Entrepreneurship and Investment Training and the help it gives to the development of focal points for industrial and technology promotion, UNIDO builds capacity for continued financial flows into the industrial and service sectors. Of particular relevance are activities relating to strategies, policies and institution-building to assist small- and medium-sized enterprises in integrating into the global economy. UNIDO pays particular attention to financing, innovation, productivity and quality for international competitiveness, human resources development, including the integration of women in industrial development, investment promotion networking and regional programmes.

22. FAO reported that its Policy Assistance Division is the central channel for providing member countries with policy advice and assistance related to national development policies, programmes and strategies in the agro-rural sector. Its Regional Policy Assistance Branches assist member countries in the formulation of policies and strategies aimed at creating a favourable economic environment for rural development, thus opening good opportunities for investment of domestic and international capital. It also provides assistance through training and the production and dissemination of training manuals in strengthening national capacity for policy analysis, formulation and implementation, and for analysis of agricultural investment projects.

23. The programme of technical cooperation in public administration of the Department of Economic and Social Affairs of the United Nations Secretariat has a large financial management dimension. It also supports technical work on international cooperation in tax matters, and other finance-related activities.

Debt management

24. The United Nations is providing technical assistance to help countries manage their external debt. The Regional

Bureau for Africa of UNDP, in collaboration with UNCTAD's Debt Management and Financial Analysis Section, has focused on improving collection, compilation, recording and reporting of debt data, installation and operation of software packages, training of national staff, and reinforcing of institutional capacity for debt management. Recent activities include the Regional Bureau for Africa's participation in the activities of Debt Relief International, an initiative funded by Austria, Denmark, Sweden and Switzerland to assist the HIPCs in preparing debt policies and strategies. A working group led by the resident representative of Uganda is reviewing the debt situation in countries emerging from conflict; and discussions were held in June 1998 on the Multilateral Debt Fund for Rwanda.

25. As a result of a programme that ended in 1994 and involved UNDP, UNCTAD and the World Bank, the Macroeconomic and Financial Management Institute of Eastern and Southern Africa was set up as a permanent regional institution to provide support to national capacity development in the area of debt management. RBA and UNDP are currently preparing a project on African debt, which will provide an inventory of debt initiatives and actors and will sample needs and existing capacities in the area of debt. It will prepare an options paper and framework that will draw on fieldwork to describe and analyse the debt situation in Africa.

Mobilizing international private financial flows for development

26. Countries are also being assisted in obtaining access to international financial markets. The Regional Bureau for Africa of UNDP, for example, has undertaken a study on the experience of Mauritius with regard to sovereign risk rating and is organizing "trial runs" of credit ratings for five countries. It is undertaking sensitization activities to familiarize African officials with the requirements and processes of credit ratings and is training African officials on trade and investment promotion (with funding from Singapore).

Mobilizing domestic resources for development

27. The importance of enabling the poor to obtain small loans to undertake economic activities is widely recognized. The Private Sector Development Programme of the Bureau of Development Policy of UNDP developed "MicroStart" in response to demand from country offices for a practical and operational product to support them in this field. Country offices commit to funding their participation (the figure is set at $1.5 million) by using their own core resources or by mobilizing resources from other partners (possibly government, donors or the private sector). A MicroStart project will consist of two integrated components: (a) a micro-capital grant component in which 5 to 10 or more local organizations receive grants of up to $150,000 in seed capital for loans and overhead costs and (b) a technical services component in which an international best practitioner provides a range of technical services to the local recipient organizations. UNDP has prepared a list of 30 qualified micro-finance institutions and six consulting firms that can be contracted to provide these services at a standard fee of $500,000 over a three-year period.

28. In May 1997, UNDP also launched a Global MicroStart Programme designed to undertake pilot initiatives at the country level through cost-sharing. So far, 50 countries have expressed an interest. To date, 20 country offices have earmarked full funding towards the programme in the amount of $1.5 million or more. Twelve countries have committed $16.8 million in funding for MicroStart.

29. Another pertinent activity is that of the Consultative Group on Assistance to the Poorest for which UNDP helps mobilize support from banks and other financial institutions.

Involvement of the private sector in financing United Nations operational activities

30. United Nations bodies are increasingly involving the private sector in the operations, projects and programmes that they are supporting.

31. FAO, for example, is giving increased emphasis to public/private partnership as a way to increase the effectiveness of its activities, as well as to leverage additional resources for development. In 1995, it created a Unit for Cooperation with the Private Sector and Non-Governmental Organizations to provide a focal point and coordination for FAO's relations with the private sector and to promote partnership initiatives. A new strategy for partnership has been approved and a new publication outlining experience and areas for collaboration will be published shortly.

32. One major element in this cooperation will be an expansion of the activities of the FAO Investment Centre.

The Centre helps countries prepare investment projects for international financing by the World Bank and other development banks. In 1996, it helped prepare projects worth $2.5 billion. Increasingly, these projects include private sector components. The Centre is also now starting to work with national commercial banks.

33. FAO's collaboration with the private sector involves direct private sector support for its activities and collaboration in fieldwork. For example, the private sector has provided all the costs of maintaining FAO's "Telefood" campaign. FAO launched the Special Programme for Food Security to help low-income, food-deficit countries increase food production and productivity as rapidly as possible, primarily through the widespread adoption by farmers of improved production techniques. The private sector can be involved in each phase of the Special Programme, from the exploratory phase to the undertaking of the investment. A global private sector network (International Agri-Food Network) and an Italian Private Sector Committee are examples of new mechanisms to provide for more comprehensive private sector involvement in the Special Programme.

34. FAO's cooperation with international industry associations has facilitated trade, technology transfer and investment in developing countries. The International Fertilizer Industry Association, for example, has supported a wide range of FAO initiatives and is now a partner with FAO, the World Bank and others in the Soil Fertility Initiative, which is focused on sub-Saharan Africa.

35. UNIDO's activities are focused on building capacities for investment and technology promotion, with the private sector becoming the dominant partner together with the public sector in the mobilization and utilization of investment resources from both international and domestic sources. Its Investment and Technology Programme is conceived and carried out in an integrated manner, encompassing the entire project cycle. It covers the establishment of national policies for creating the enabling environment for promoting investment flows; building national capacities for project identification, preparation, evaluation and promotion; developing and effectively utilizing technological capabilities and other technical skills; developing and promoting entrepreneurial capabilities, especially for small- and medium-sized enterprises; investment project negotiations, start-up and implementation; continuous quality management, standardization and meteorology; industrial technological and business information networking; and environmentally sustainable industrial development. The above activities are carried out at the national, regional/subregional and international levels. UNIDO has also developed a network of partners – Investment Promotion Agencies or Offices in developing countries and major developed countries — they are in contact with the donor Governments and the private sector international centres of excellence in leading emerging technologies as well as other international funding agencies involved in promoting the flow of investment and technology to developing countries.

36. In addition, UNIDO provides a wide range of services for private sector support. Its tools include methodologies to identify and formulate investment/technology transfer proposals, application of software to appraise their potential, and the organization of investors and of investment technology markets (INTECHMARTs) to bring together international partners for investment and technology transfer.

37. The Regional Bureau for Latin America and the Caribbean of UNDP has been helping bring venture capital to development. For instance, in collaboration with the Association of Enterprises in Buenos Aires and Mendoza, it has been helping identify opportunities for venture capital. The South-North Institute, a non-governmental organization, joined hands with UNDP in designing a pilot programme to involve the local private sector in creating employment opportunities for the low-income population.

38. Similarly, in its Public-Private Partnership for Urban Environment, UNDP is helping direct private capital investment flow to areas of critical importance to sustainable development, namely water and sanitation, waste management and energy. It uses its knowledge and analysis capabilities to create an enabling environment for private sector investment in areas that would otherwise not be seen as attractive opportunities for generating revenues. An example of its work was a project in Manizales, Colombia, which aimed at providing domestic waste collection services to 21 municipalities, in addition to examining the business potential of an efficient coffee-washing process. The project attracted $600,000 from a private company that was involved in the solid waste recycling programme and in producing fertilizer from biodegradable refuse, as well as in recycling of plastic, glass and paper for sale.

Indirect assistance to mobilizing finance for development

39. In some cases, the connection between an agency's work and finance for development is indirect. For instance, ICAO drew attention to the fact that air transport has an

integral role in the world economy as a tool for conducting much of the world's business, as a foundation for the tourism industry and as a cost-effective means of distributing goods and services. Similar considerations apply to the work of UPU. It reported that it had undertaken an important project in a large developing country to reform that country's postal system as a "self-financing fund". UNDCP reported how financial flows based on illicit earnings from drug trafficking or other crime do not contribute to development, but rather have the opposite effect of undermining legitimate enterprise, concentrating wealth in the hands of a small number of individuals and diverting resources from government budgets. It operates, jointly with the Centre for International Crime Prevention of the United Nations Secretariat, a global programme on money laundering, targeting the strengthening of institutions to prevent or combat money laundering and related economic crime.

Innovative sources of financing

40. Specific examples of innovative sources of financing were included in the replies. The United Nations International Drug Control Programme (UNDCP) described how, in keeping with the terms of the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988,[6] the Government of Luxembourg donates to UNDCP a portion of the revenues it receives from assets forfeited in drug trafficking/laundering cases. These funds are used for development-based initiatives in rural areas where illicit crops are grown, as a means of removing the economic dependence on drug crops. A Japanese non-governmental organization undertakes regular fund-raising campaigns with the public in Japan and provides between $400,000 and $500,000 per year to UNDCP for use exclusively in small grants to non-governmental organizations working on drug abuse prevention in developing countries.

Notes

[1] *Report of the United Nations Conference on Environment and Development, Rio de Janeiro, 3-14 June 1992*, vol. I, Resolutions Adopted by the Conference (United Nations publication, Sales No. E.93.I.8 and corrigendum), resolution 1, annex II.

[2] United Nations publication, Sales No. E.98.II.F.59.

[3] United Nations publication, Sales No. E.98.II.F.62.

[4] Mimeographed document presented to the Expert Group Meeting on "What have we learned one year into the emerging market countries financial crisis?", New York, 21-23 July 1998.

[5] Vienna, UNIDO, 1997.

[6] See *Official Records of the United Nations Conference for the Adoption of a Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, Vienna, 25 November-20 December 1988*, vol. I (United Nations publication, Sales No. E.94.XI.5).